



U.S. GENERAL SERVICES ADMINISTRATION
Office of the Inspector General

September 30, 2009

MEMORANDUM FOR JAMES A. WILLIAMS
COMMISSIONER, FEDERAL ACQUISITION SERVICE (Q)
Kenneth L. Crompton
FROM: KENNETH L. CROMPTON
DEPUTY ASSISTANT INSPECTOR GENERAL FOR
ACQUISITION AUDITS (JA-A)
SUBJECT: Review of Program Performance Measurement for Procurement
Report Number A070171/Q/A/P09005

Attached are three copies of the subject report. The report presents the results of our Review of Program Performance Measurement for Procurement. The report was prepared by the Acquisition Programs Audit Office (JA-A) under the Inspector General's continuing responsibility to assist GSA management through independent reviews of its operations. A draft report was previously provided to your office for review and comment. Your response is included as Appendix B.

As required by GSA Order ADM P 2030.2C, please furnish a time phased action plan to address the report recommendations and the Management Decision Record within 60 calendar days of the report date. Your office should complete Section B on the Management Decision Record. Your action plan and the Management Decision Record should be submitted to the Assistant Inspector General for Auditing (JA), with a copy to the Internal Control and Audit Division (BEI).

Also, to help us improve our customer service, we have attached a Customer Satisfaction Survey. We ask that the primary user of the report complete the survey and return it to the Audit Planning, Policy, and Operations Staff (JAO) in the envelope provided.

In addition, please remember that the National Defense Authorization Act, Section 810, Resolution of Audit Recommendations, requires that final actions on all management decisions be completed within 12 months. The Office of Inspector General must report any uncompleted actions in its semiannual Report to Congress.

I would like to express my appreciation for the courtesies and assistance provided by your staff during the audit. If you have any questions, please contact Erin Priddy, Audit Manager, at (816) 926-8610 or me at (703) 603-0189.

Attachments

Audit Report

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT
FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

September 30, 2009

**Office of Inspector General
General Services Administration**



Office of Audits

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT
FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

September 30, 2009



U.S. GENERAL SERVICES ADMINISTRATION
Office of the Inspector General

Date: September 30, 2009

Reply to
Attn of: Audit Manager, Acquisition Programs Audit Office (JA-A)

Subject: Review of Program Performance Measurement for Procurement
Report Number A070171/Q/A/P09005

To: James A. Williams
Commissioner, Federal Acquisition Service (Q)

This report presents the results of the Review of the Program Performance Measurement for Procurement. Our review found that the Federal Acquisition Service (FAS) has performance measures for Multiple Award Schedule Contracting Officers (COs) that assess contract quality, including customer satisfaction and compliance with laws, regulations, and guidelines. We found FAS' existing measures for customer satisfaction to be sufficient. However, because of the importance of pricing to the foundation of the Schedules program, attention is needed to ensure that pricing receives more emphasis in CO performance and to ensure an adequate assessment of overall compliance.

If you have any questions regarding this report, please contact me on (816) 926-8610.

A handwritten signature in blue ink that reads "Erin P. Priddy".

Erin P. Priddy
Audit Manager
Acquisition Programs Audit Office

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
Purpose	i
Background	i
Results in Brief	ii
Recommendations	ii
Management Comments	iii
INTRODUCTION	1
Background	1
Performance Measures	1
Objective, Scope and Methodology	3
RESULTS OF REVIEW	6
Quality in MAS Contracting Can be Defined in Terms of Customer Satisfaction and Compliance with Laws, Regulations, and Guidelines	6
Customer Satisfaction	6
Timeliness	7
Compliance with Laws, Regulations, and Guidelines	7
Pricing	7
FAS Needs to Strengthen Performance Measures for Contract Pricing and Overall Compliance with Laws, Regulations, and Guidelines	7
Customer Satisfaction Measures are Adequate	8
Existing FAS Measures for Pricing and Overall Compliance Need Strengthening	10
Additional Pricing Measures Needed	11
Recommendations	15
Management Comments	15

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

TABLE OF CONTENTS (continued)

Measure for Overall Compliance with Laws, Regulations, and Guidelines is Not Adequate	16
Recommendation	17
Management Comments	17
CONCLUSION	18
INTERNAL CONTROLS	18
APPENDICES	
Pricing Criteria and History of Reported Problems	A-1
Management Comments	B-1
OIG's Response to Management's Comments	C-1
Report Distribution	D-1

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

EXECUTIVE SUMMARY

Purpose

The objective of this review was to determine if the General Services Administration's (GSA's) Federal Acquisition Service (FAS) has performance measures for Multiple Award Schedule (MAS) contracting officers (COs) that stress the importance of contract quality, including pricing, and if not, to identify potential performance measures FAS could implement to ensure that MAS contracts reflect the goals of the Multiple Award Schedules program (hereon referred to as "Schedules program").

Background

Under GSA's Schedules program, FAS establishes and administers long-term contracts with commercial vendors to provide government agencies with streamlined access to over 12 million commercial supplies and services to meet their missions. Agencies' use of the Schedules program satisfies government-wide competition requirements mandated by law provided that GSA opens the program to all responsible sources, and contracts and orders under the program result in the lowest cost alternative for the government's needs. GSA Schedules offer the potential benefits of shorter lead-times, lower administrative costs, and reduced inventories. Within the FAS organization, the Schedules program is administered through nine acquisition centers, which are located within three distinct FAS portfolios: Integrated Technology Services; General Supplies & Services; and Travel, Motor Vehicles, and Card Services.¹

To ensure customer agencies and taxpayers receive the best value and fulfill the intent of the Schedules program, COs are responsible for negotiating with the goal of achieving vendors' most favored customer (MFC) pricing through leveraging the collective purchasing volume of the government. The volume of the Schedules program has increased dramatically over the last ten years. As of September 1, 2008, GSA had 16,501 contracts in effect and \$36.7 billion dollars in sales. To cover the costs of operating the MAS program, customer agencies pay a 0.75% industrial funding fee on total MAS purchases. MAS vendors collect this fee and remit the fee to GSA.

¹ On October 1, 2008, GSA announced the development of the Multiple Award Schedule Program Office, a part of FAS' Acquisition Management Office. The Office of Acquisition Management is responsible for establishing the standards and framework for managing the acquisition workforce in accordance with policy established by the GSA Chief Acquisition Officer. This new MAS Program Office will ensure that the MAS portfolios are following consistent policies and procedures and strategically align the MAS Program.

COs are evaluated based upon critical job elements, which are documented in Associate Performance Plan & Appraisal System (APPAS) plans. These individual performance plans focus on assigned duties and responsibilities performed by the CO. The APPAS plans link CO performance measures to the organizational and agency mission and provide guidance and accountability for individual performance expectations.

In addition to the individual CO performance plans, FAS developed scorecards at the organizational level. The scorecards assist FAS managers in translating organizational strategies into measurable actions and meaningful business results.

Results in Brief

FAS has performance measures for MAS COs that assess contract quality, including customer satisfaction and compliance with laws, regulations, and guidelines. We found FAS' existing measures for customer satisfaction to be sufficient. However, because of the importance of pricing to the foundation of the Schedules program, attention is needed to ensure that pricing receives more emphasis in CO performance and to ensure an adequate assessment of overall compliance.

We recognize that FAS has made efforts to develop meaningful and measurable contract quality measures for MAS contracts, including some pricing measures. However, we believe FAS should adopt additional measures at the organizational level to address continuing concerns about Schedules program pricing. Strengthening price related performance measures is critical to improve controls over the quality of MAS contracts and enhance the value of the Schedules program. In conjunction with the information we are providing based on our study of other government procurement organizations, we are also reaffirming recommendations from a previous report intended to improve CO performance in price analysis and negotiations.

Relative to broad compliance with laws, regulations, and guidelines, FAS has developed portfolio scorecards that incorporate a measure for overall quality of contract actions; however, FAS has not formally implemented the measure. The intended basis for the measure is the results of annual Procurement Management Reviews (PMRs) performed by GSA's Office of the Chief Acquisition Officer (OCAO); however, in our opinion, these reviews do not provide adequate evidence of the level of compliance for the Schedules program due to the small number of MAS contract actions the OCAO samples.

Recommendations

We recommend that the Commissioner of the Federal Acquisition Service:

1. Ensure that the Offices of General Supplies & Services and Travel, Motor Vehicles, and Card Services develop at least one organizational measure emphasizing the importance of pricing to the Schedules program for FY 2010 and future scorecards.

2. Ensure that the Offices of Integrated Technology Services; General Supplies & Services; and Travel, Motor Vehicles, and Card Services portfolios develop an organizational measure for FY 2010 and future scorecards to evaluate price analysis for a risk-based sample of proposed awards or modifications (e.g., percent of contracting actions reviewed with acceptable price analysis performed and documented in compliance with regulatory guidelines).
3. Establish an internal review program through the Office of Acquisition Management that will provide an adequate assessment of the extent that MAS contracts meet requirements for quality in terms of compliance with laws, regulations, and guidelines and that can be quantitatively measured at the organizational level.

Management Comments

The Commissioner indicated partial agreement with these recommendations. The Commissioner's comments are included in their entirety as Appendix B to this report.

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

INTRODUCTION

Background

Under the General Services Administration's (GSA's) Multiple Award Schedules program (hereon referred to as "Schedules program"), the Federal Acquisition Service (FAS) establishes and administers long-term contracts with commercial vendors to provide government agencies with streamlined access to over 12 million commercial supplies and services to meet their missions. Agencies' use of the Schedules program satisfies government-wide competition requirements mandated by law provided that GSA opens the program to all responsible sources, and contracts and orders under the program result in the lowest cost alternative for the government's needs. GSA Schedules offer the potential benefits of shorter lead-times, lower administrative costs, and reduced inventories. To ensure customer agencies and taxpayers receive the best value and fulfill the intent of the Schedules program, Contracting Officers (COs) are responsible for negotiating with the goal of achieving vendors' most favored customer (MFC) pricing through leveraging the collective purchasing volume of the government.

The volume of the Schedules program has increased dramatically over the last ten years. As of September 1, 2008, GSA had 16,501 contracts in effect and \$36.7 billion dollars in sales. To cover the costs of operating the MAS program, customer agencies pay a 0.75% industrial funding fee on total MAS purchases. MAS vendors collect this fee and remit the fee to GSA.

Performance Measures

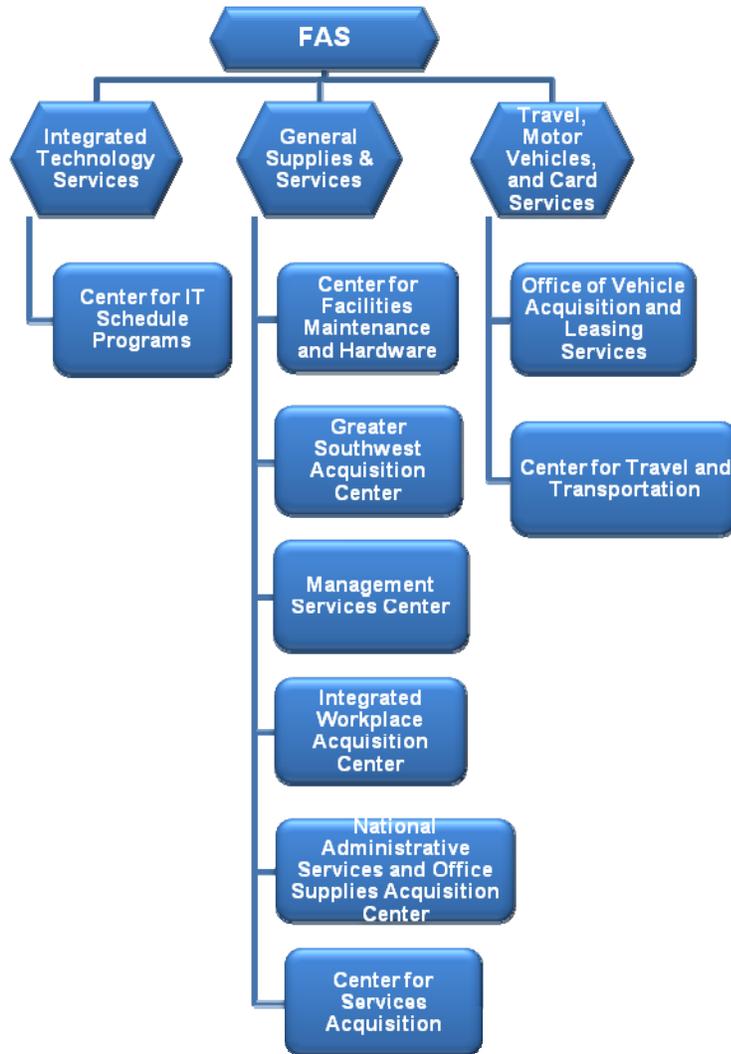
COs are evaluated based upon critical job elements, which are documented in Associate Performance Plan & Appraisal System (APPAS) plans. These individual performance plans focus on assigned duties and responsibilities performed by the CO. The performance plans link CO performance measures to the organizational and agency mission and provide guidance and accountability for individual performance expectations.

In addition to individual CO performance plans, FAS' Office of Strategic Business Planning and Process Improvement developed scorecards at the organizational level. The scorecards assist FAS managers in translating organizational strategies into measurable actions and meaningful business results.

Within the FAS organization, the Schedules program is administered through nine acquisition centers, which are located within three distinct FAS portfolios: Integrated Technology Services; General Supplies & Services; and Travel, Motor Vehicles, and

Card Services², as shown in Chart 1. FAS developed new scorecards for each of these portfolios for FY 2008.

Chart 1: FAS Portfolios and Corresponding MAS Acquisition Centers



² On October 1, 2008, GSA announced the development of the Multiple Award Schedule Program Office, a part of FAS' Acquisition Management Office. The Office of Acquisition Management is responsible for establishing the standards and framework for managing the acquisition workforce in accordance with policy established by the GSA Chief Acquisition Officer. This new MAS Program Office will ensure that the MAS portfolios are following consistent policies and procedures and strategically align the MAS Program.

Objective, Scope, and Methodology

The objective of this review was to determine if FAS has performance measures for MAS COs that stress the importance of contract quality, including pricing, and if not, to identify potential performance measures FAS could implement to ensure that MAS contracts reflect the intent and goals of the Schedules program. While we analyzed contract quality from a broad perspective, we included pricing in our objective because of its significance to the Schedules program and because it remains to be a concern to oversight groups within and outside of GSA (see Appendix A).

To determine performance factors related to contract quality that FAS currently emphasizes and measures, we analyzed individual APPAS plans for a sample of COs from each of the MAS acquisition centers and reviewed the FAS organizational scorecards for the portfolios that encompass the Schedules program (hereon referred to as the FAS Portfolios). We conducted the review from May 2007 through March 2008.

We also performed the following steps:

- Met with various FAS officials from the following offices:
 - Office of Administration
 - Office of Strategic Business Planning and Process Improvement
 - Office of Acquisition Management
 - Office of Integrated Technology Services
 - Office of General Supplies & Services
- Held discussions with officials from the GSA Office of the Chief Acquisition Officer (OCAO).
- Met with an official from the Human Capital Policy Division within the GSA Office of the Chief Human Capital Officer.
- Corresponded with officials from the FAS Acquisition Centers:
 - Center for IT Schedule Programs
 - GSA Center for Facilities Maintenance and Hardware
 - Greater Southwest Acquisition Center
 - Management Services Center
 - Integrated Workplace Acquisition Center (formerly the National Furniture Acquisition Center)
 - National Administrative Services and Office Supplies Acquisition Center
 - Center for Services Acquisition
 - Office of Vehicle Acquisition and Leasing Services
- Reviewed FAS' draft and final FY 2007 MAS scorecards.

- Analyzed the following FAS FY 2008 scorecards:
 - Automotive Acquisition Scorecard
 - General Supplies and Services Acquisition Operations Scorecard
 - IT Schedules Program Scorecard
- Reviewed a sample of CO performance plans from all acquisition centers, as related to the Schedules program.
- Held meetings with procurement officials from the following organizations with acquisition functions. For reporting purposes, we randomly identified these organizations as “A” through “E”:
 - U.S. Department of Veterans Affairs
 - Internal Revenue Service, U.S. Department of the Treasury
 - National Aeronautics and Space Administration
 - State of Florida
 - State of California
- Reviewed relevant GSA Office of Inspector General (OIG) and U.S. Government Accountability Office (GAO) audit reports from FY 1980 through FY 2008.
- Reviewed other reports related to reviews of the Schedules program, including the Office of Management and Budget’s Program Assessment Rating Tool from 2006; GSA’s OCAO’s Procurement Management Review (PMR) reports from FY 2007 for Regions 2, 3, 6, 7, and 10; and a FAS Acquisition Quality Measurement and Improvement Program Contract Quality Review summary, relating to contract quality, prepared in response to recommendations made by the GAO in 2005.
- Reviewed relevant FAS internal guidance, including Procurement Information Bulletins (PIBs) and Procurement Information Notices (PINs) from FY 1997 through FY 2008.
- Reviewed applicable provisions of the Federal Acquisition Regulation (FAR) and the General Services Acquisition Manual (GSAM).
- Reviewed Federal Managers Financial Integrity Act statements for FY 2008 for the Offices of Integrated Technology Services; General Supplies & Services; and Travel, Motor Vehicles, and Card Services.
- Reviewed the GSA Annual Performance and Accountability Reports for the period FY 2000 to FY 2007.

We conducted the review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained

provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS OF REVIEW

FAS has performance measures for MAS COs that assess contract quality, including customer satisfaction and compliance with laws, regulations, and guidelines. We found the existing measures for customer satisfaction to be sufficient. However, because of the importance of pricing to the foundation of the Schedules program, attention is needed to ensure that pricing receives more emphasis in CO performance and to ensure an adequate assessment of overall compliance.

We recognize that FAS has made efforts to develop meaningful and measurable contract quality measures for MAS contracts, including some pricing measures. However, we believe FAS should adopt additional measures at the organizational level to address continuing concerns about Schedules program pricing. Strengthening price related performance measures is critical to improve controls over the quality of MAS contracts and enhance the value of the Schedules program. In conjunction with the information we are providing based on our study of other government procurement organizations, we are also reaffirming recommendations from a previous report intended to improve CO performance in price analysis and negotiations.

Relative to broad compliance with laws, regulations, and guidelines, FAS has developed portfolio scorecards that incorporate a measure for overall quality of contract actions; however, FAS has not formally implemented the measure. The intended basis for the measure is the results of annual reviews performed by GSA's OCAO; however, in our opinion, these reviews do not provide adequate evidence of the level of compliance for the Schedules program due to the small number of MAS contract actions the OCAO samples.

Quality in MAS Contracting Can be Defined in Terms of Customer Satisfaction and Compliance with Laws, Regulations, and Guidelines

To determine if FAS has performance measures for MAS COs that stress the importance of contract quality, we explored the definition of a quality contract. Based upon our research and comparative analyses, we concluded that contract quality includes: (1) Customer satisfaction, and (2) Compliance with laws, regulations, and guidelines.

Customer Satisfaction

Customer satisfaction reflects the Schedules program goal to help federal agencies better serve the public by offering direct access to commercial products and services at volume discount prices. As a non-mandatory source, the Schedules program must compete with other contracting vehicles available to customer agencies. Therefore, measuring the extent to which customer agencies are satisfied with the program is imperative.

Timeliness. We noted that timeliness in awarding and administering contracts is a common measure in other government procurement organizations. FAS measures cycle times as part of operational efficiency and effectiveness; however, timeliness is also an integral part of customer satisfaction. With the maturity of the Schedules program, timeliness is especially important in processing modifications and contract renewals to ensure continuity of services and availability of the most current technology and supplies in support of customer agency missions.

Compliance with Laws, Regulations, and Guidelines

A quality contract must comply with applicable laws, regulations, and guidelines. For instance, a MAS contract must adhere to various laws and regulations, such as the FAR and the GSAM. There are a multitude of characteristics that contribute to a quality contract that are included in the category of compliance with laws, regulations, and guidelines. For example, contracts should include all of the required clauses to protect the government's interest, be sufficiently documented, receive adequate competition, and offer fair and reasonable pricing. In addition, COs should demonstrate sound decision making and knowledge of the various contract requirements.

Pricing. The importance of price to the MAS program can be traced to federal statute. The Competition in Contracting Act (CICA) of 1984 (41 U.S.C. 253), as implemented in FAR Part 6, sets a standard of competition for Federal contracts. Although there are a number of laws impacting the way the Government buys its goods and services, CICA is one of the more important laws because it establishes competition as the norm for Federal contracts. Section 259(b)(3) of title 41 of the United States Code provides that the procedures established under the Schedules program satisfy the general requirement in 41 U.S.C. 253(a)(1) for the use of competitive procedures *if* (1) participation in the program has been open to all responsible sources, and (2) orders and contracts under such procedures result in the lowest overall cost alternative to meet the needs of the government. Relative to (2), price analyses and negotiations are key substantive steps the CO takes to ensure that the determination of contract pricing reflects the aggregate volume of Government demand. The Code of Federal Regulations (CFR) reinforces this premise in the "most favored customer" negotiation policy in 48 CFR § 538.270. Similarly, FAS emphasizes it in its internal instructional materials:

Our goal is to use commercial terms and conditions and the leverage of the Government's volume buying to achieve the best possible prices and terms for both customers and taxpayers.

-- *Federal Supply Service PIB 04-2*

FAS Needs to Strengthen Performance Measures for Contract Pricing and Overall Compliance with Laws, Regulations, and Guidelines

At the individual and organizational level, FAS has established performance measures that assess contract quality in terms of customer satisfaction and compliance with laws, regulations, and guidelines. We believe the existing measures for customer satisfaction

are adequate. However, FAS needs to strengthen measures for pricing and overall compliance to ensure quality contracting in the Schedules program.

Customer Satisfaction Measures are Adequate

Customer satisfaction, including timeliness, is well represented in both the existing CO performance plans and the FAS portfolio scorecards, as shown in Table 1 and Table 2.

Table 1: FY 2007 CO APPAS Quality Measures Relating to Customer Satisfaction

Contract Quality Performance Plan Measure (Customer Satisfaction)	Integrated Technology Services	General Supplies & Services	Travel, Motor Vehicles, and Card Services
Average number of days to complete a contracting action (e.g., new awards, renewals, and modifications)	●	●	●
Customer relationship management	●	●	●
Partnering with other internal/external team members, business areas, business lines, services, customers/ industry partners to achieve best strategies in a caring, familiar, and responsive manner		●	
Communication with internal and external customers is professional, enthusiastic, and conducted in the spirit of cooperation		●	
Formal communication responses are completed within center's established timeframes		●	

Table 2: FY 2008 Portfolio Scorecard Quality Measures Relating to Customer Satisfaction

Contract Quality Scorecard Measure (Customer Satisfaction)	Integrated Technology Services	General Supplies & Services	Travel, Motor Vehicles, and Card Services
External customer satisfaction Customer surveys are used.	●	●	●
Cycle time to process MAS offers Number of calendar days from receipt of offer to award, rejection, or withdrawal.	●	●	●
Cycle time to process MAS modifications Number of calendar days from receipt of request for modification to issuance of modification.	●	●	●
Business volume Revenue from goods and services sold divided by 0.75%.	●	●	
MAS sales Revenue from goods and services sold divided by 0.75%.			●
Cycle time to process MAS Express¹ offers Number of calendar days from receipt of offer to award, rejection, or withdrawal for offers under the MAS Express program.		●	
Percentage of options exercised timely for the full 5-year period Number of options fully exercised at least 30 days prior to contract expiration, divided by the total number of options that are desired to be exercised.		●	

¹ The MAS Express Program is a specialized program designed to simplify, streamline, and accelerate the process for vendors to obtain MAS contracts.

We found that other government procurement organizations also track and measure customer satisfaction. Those organizations that did not have a formal measure for customer satisfaction advised us that it is nevertheless a significant consideration when evaluating individual performance. The following is an example of a specific measure we identified for attention to customer satisfaction:

Constantly listens to customers, analyzes their feedback to identify their needs and expectations, and acts to continuously improve products and services.

Existing FAS Measures for Pricing and Overall Compliance Need Strengthening

Every CO's performance plan and FAS portfolio scorecard we analyzed included performance measures related to compliance with laws, regulations, and guidelines, as shown in Tables 3 and 4, respectively; however, in order to ensure that MAS contracts reflect the intent and goals of the Schedules program, FAS needs to strengthen measures for pricing and overall compliance.

Table 3: FY 2007 CO APPAS Quality Measures Relating to Compliance with Laws, Regulations, and Guidelines

Contract Quality Performance Plan Measure (Compliance)	Integrated Technology Services	General Supplies & Services	Travel, Motor Vehicles, and Card Services
Actions are supported and in compliance with regulatory guidelines, completeness of documentation, and are properly filed and formatted	●	●	●
Accuracy and completeness of written and oral communication	●	●	●
Contract actions are complete, accurate, and reflect sound judgment and good business practices		●	
Complies with acquisition regulations, file documentation, and budget constraints		●	

Table 4: FY 2008 Portfolio Scorecard Quality Measures Relating to Compliance with Laws, Regulations, and Guidelines

Contract Quality Scorecard Measure (Compliance)	Integrated Technology Services	General Supplies & Services	Travel, Motor Vehicles, and Card Services
IT Schedules price competitiveness for products Percentage of Schedule IT products that are within 110% of the competition's prices for the same products. Popular brands and current models available on GSA <i>Advantage!</i> are selected for comparison with private sector pricing. GSA is considered competitive as long as GSA's lowest price is less than +10% of the private sector lowest price.	●		
IT Schedules price competitiveness for services Percentage of Schedule IT services that are within 110% of the competition's prices for the same services. Four non-GSA government wide acquisition contracts are used for comparison.	●		
Percentage of contracts reviewed with acceptable quality Number of contracts reviewed with acceptable quality divided by the number of contracts reviewed.	○ ¹	○	○

¹While this measure appears on all three portfolios' scorecards, FAS has not implemented the measure.

In general, evaluations of CO compliance with laws, regulations, and policies are based on supervisory file reviews. The extent of these reviews varies among the acquisition centers. We believe that the existing measures on the CO APPAS plans are adequate to assess general compliance. However, due to the significance of achieving most favored customer pricing when making awards and exercising options, we believe additional measures are needed for pricing at the organizational level. In addition, FAS should implement an internal review program to provide an adequate assessment of overall compliance.

Additional Pricing Measures Needed. We recognize that FAS has made efforts to develop meaningful, measurable contract quality performance measures relating to pricing for the Schedules program. We acknowledge that the Integrated Technology Services' scorecard has two measures for price competitiveness; however, because of the importance of pricing to the Schedules program, FAS needs to ensure that pricing receives adequate emphasis across the portfolios.

As noted earlier in this report, the significance of price to the Schedules program is based in statute and regulation, and is also reflected in internal FAS guidance. To underscore the importance of pricing to the program, Appendix A provides a list of relevant reports and criteria that emphasize the CO's responsibility related to MAS

contract pricing and the need for improved performance in this area. Most recently, our office issued Audit Report Number A060190/Q/6/P07004, "Review of Multiple Award Schedule Program Contract Workload Management" (MAS Workload Management), dated July 31, 2007, wherein we addressed the need for increased attention to pricing in CO performance measures, including negotiations:

A key value proposition for the Schedules program is customer agencies' ability to order goods and services with the assurance that GSA has determined the prices to be fair and reasonable . . . Accordingly, having a well-defined quality measure that focuses on price evaluation and negotiations is important to ensure effectiveness in these areas.

In that report, we recommended that FAS establish performance measures that evaluate CO effectiveness in three areas:

- ✓ Verification of vendor disclosures related to their commercial sales practices (CSP),
- ✓ Price analysis and negotiations, and
- ✓ Consideration of field pricing assistance.

As of the date of this report, FAS has not implemented this recommendation and has indicated that they are waiting for this report to assist them in implementation. Accordingly, we wish take the opportunity in this report to reaffirm and clarify this recommendation.

In pursuing a policy of achieving vendors' most favored customer pricing, COs rely upon information vendors provide regarding their CSP data, including categories of customers, sales volume, and discounts and terms granted those customers. The more information the CO has regarding a vendor's sales practices and actual prices granted, the better the opportunity for the CO to be successful in negotiating the best pricing for the government. Every year, the OIG coordinates with FAS to perform a limited number of reviews of vendor sales information for selected MAS contracts in order to verify the accuracy of this information and report the results of these attestation reviews for the COs' use in negotiations. These reviews continue to identify inaccuracies with vendor-provided data and other pricing issues. Of the 68 reviews the OIG conducted in FY 2007, approximately 70 percent of the reviews indicated that the CSP data that the vendors submitted was not current, accurate, or complete. In addition, approximately 70 percent of the reviews determined that the vendor did not offer the government most favored customer pricing. For the reviews issued from FY 2005 through the first quarter of FY 2007, the GSA OIG recommended to FAS COs over \$1.9 billion in savings. At the time of report issuance, FAS COs have worked to achieve approximately \$627 million in savings as a result of those reviews.³

The high incidence of vendor disclosure issues identified by the OIG reviews, as well as the frequency of OIG determinations that the vendor is not offering most favored

³ As of March 2009, management had not yet committed a savings amount for fifteen of the contracts reviewed, which total over \$231 million of recommended savings.

customer pricing, suggests that COs need to take a proactive approach to ensure they have a complete understanding of the vendor’s sales practices when negotiating most favored customer pricing. The recommendation in the MAS Workload Management report related to establishing performance measures that evaluate COs’ verification of vendor disclosures reflects our belief in this need for a proactive approach. The most important step to verification is for COs to clarify CSP information provided by vendors through a series of questions designed to ensure that the vendor has disclosed all instances of pricing more favorable than that which the vendor is offering GSA, and all of the circumstances related to the more favorable pricing. For example, OIG attestation reviews have found that customers receiving better pricing also often buy in smaller quantities and under less favorable conditions than GSA customers. Another problem that is becoming more common is that some vendors have no commercial sales. As a result, the only practical basis of contract award is cost information. The information obtained by the CO through the clarification process would be included in the contract file in accordance with FAR 15.406(3)(a).

The second and third parts of the recommendation in the MAS Workload Management report relative to price analyses, negotiations, and consideration of field pricing assistance, refer to the extent to which contract file documentation reflects that the CO has followed FAR 15.406 for these elements. Recommendation 2 of this report (See Page 15 of this report) could address this recommendation.

We found that most of the other government procurement organizations we researched have performance measures for acquisition professionals relating to compliance, including pricing. The measures identified are listed below in Tables 5 and 6, respectively.

Table 5: Procurement Organizations’ Compliance Measures for Individual Acquisition Professionals¹

Procurement Organization	Individual Acquisition Professional Performance Measure
C, D	Work is correct and complete
D	Follows established policies and procedures in completing work assignments
E	Demonstrates competence and knowledge in areas of assigned responsibilities
E	Documentation supports decision
E	Completes acquisition in accordance with guidelines

¹ Organizations C, D, and E provided us with individual procurement personnel performance plans. Organizations A and B did not. All of these organizations procure both products and services.

Table 6: Procurement Organizations' Compliance Measures at Organizational Level¹

Procurement Organization	Organizational Performance Measure
A	Discount from Manufacturer's Suggested Retail Price
E	Procurement-influenced savings
E	Percent of solicitations or contract files approved on Initial Policy/Legal review

¹ Organizations A and E provided us with organizational performance plans. Organizations B, C, and D did not. All of these organizations procure both products and services.

We believe FAS could adopt meaningful measures for pricing at the organizational level. In reviewing the individual CO APPAS plans, we learned that the evaluations of CO compliance with laws, regulations, and guidelines are largely based on supervisory file reviews, such as Pre-Negotiation Clearance Panel reviews which are to be performed in accordance with Federal Supply Service Acquisition Letter FC-03-1 issued on March 25, 2003. From past audits conducted, we know that the extent of these reviews varies among the acquisition centers. To emphasize the importance of price analysis, including achievement of MFC pricing and meaningful negotiations, we believe that acquisition center management should institute a pricing review for a risk-based sample of proposed awards or modifications. This review should consider all facets of price analysis, including, but not limited to questions such as:

- ✓ Does the contract file reflect that the CO asked a series of questions to evoke full disclosure of the vendor's sales practices?
- ✓ Does the CO's analysis reflect that the CO was knowledgeable about industry pricing practices?
- ✓ If MFC pricing was not offered, does the contract file reflect that the CO evaluated the vendor's reasons for not offering MFC as required by 48 CFR 538.270?
 - Does the CO's analysis of these reasons reflect sound business judgment and adherence to FAS policies and guidance?
 - Does the contract file reflect that the CO evaluated the quantities the MFC purchased in comparison to the Government?
- ✓ If there was an attestation review or audit performed, does the contract file reflect that the CO considered the field pricing assistance in compliance with FAR 15.406(3)(a)?

This pricing review should be consistent in content and form throughout all acquisition centers.

Each fiscal year, the results of these reviews could be reported to each acquisition centers' respective portfolio management. In turn, an organizational measure should be added to each portfolio's scorecard to measure the results of these file reviews. This approach places the focus on overall organizational pricing achievements and at the same time highlights the fact that FAS management recognizes the significance of

quality price analysis, including the achievement of MFC pricing and meaningful negotiations. The implementation of these reviews supports GSA's strategic goal of best value in developing and delivering timely, accurate, and cost-effective acquisition services and business solutions.

Recommendations

We recommend that the Commissioner of the Federal Acquisition Service:

1. Ensure that the Offices of General Supplies & Services and Travel, Motor Vehicles, and Card Services develop at least one organizational measure emphasizing the importance of pricing to the Schedules program for FY 2010 and future scorecards.
2. Ensure that the Offices of Integrated Technology Services; General Supplies & Services; and Travel, Motor Vehicles, and Card Services develop an organizational measure for FY 2010 and future scorecards to measure price analysis for a risk-based sample of proposed awards or modifications (e.g., percent of contracting actions reviewed with acceptable price analysis performed and adequately documented in compliance with regulatory guidelines).

Management Comments

In his August 21, 2009 response to the draft report, the Commissioner indicated partial agreement with these recommendations.

Recommendation 1. The Commissioner's response stated that FAS agrees that pricing is a key responsibility of the MAS program and that measures should be developed, noting that the Travel, Motor Vehicle and Card Services portfolio has already put in place a proposed tracking measure for FY 2009. The response also indicates that proposed measures need to be evaluated in conjunction with the overall FAS strategic goals, the recommendations and implementation of the MAS Blue Ribbon Panel, as well as the revised GSAR/GSAM; and because of this, FAS believes the recommendations are ill-timed. In addition, the response describes efforts by the Travel, Motor Vehicles, and Card Services portfolio to establish a performance measure for pricing.

We reaffirm our recommendation. As our report conveys, the importance of price to the Schedules program is based in federal law; in fact, it is the fundamental basis for the statutory exemption of the program from CICA requirements and one of the key benefits of the program to customer agencies. In addition, there is ample history of pricing problems with the Schedules program, as illustrated in Appendix A of our report, as well as two outstanding recommendations related to performance measurement for pricing and negotiations from a July 2007 OIG report⁴ that FAS has yet to implement. Due to

⁴ General Services Administration, Office of Inspector General, *Review of Multiple Award Schedule Program Contract Workload Management* (July 31, 2007).

the size and risk associated with the Schedules program, we believe the recommendation is not only reasonable but long overdue.

Recommendation 2. The Commissioner's response stated that FAS is developing training courses to educate the acquisition workforce on contracting requirements, including negotiations and documentation, and that the development and implementation of these courses will be part of the performance measures for the FAS Office of Acquisition Management. While acknowledging that pricing is a key responsibility of the program, the response reiterates that FAS believes the recommendation to be ill-timed, citing reasons similar to those noted in the response to Recommendation 1 above. In addition, the response notes that the Travel, Motor Vehicles, and Card Services portfolio will begin monthly internal program reviews in FY 2010, where supervisory staff will select high-risk contracts and conduct a detailed file review to ascertain where knowledge and/or skill gaps exist in the workforce, and that this data will be tracked for FY 2010 to establish a baseline for a potential measure in FY 2011.

We reaffirm our recommendation. While we agree that training is important and may be an appropriate measure for the Office of Acquisition Management, it is not an outcome-oriented performance indicator for the program.

Measure for Overall Compliance with Laws, Regulations, and Guidelines is Not Adequate

As noted in Table 4, FAS included a measure on each of the FY 2008 portfolios' scorecards for acceptable contract quality. It is insufficient because (1) FAS has not implemented the measure, and (2) the intended basis of the measure [GSA OCAO reviews] does not provide adequate evidence of compliance.

From the performance measure data sheets for the scorecards we analyzed, the measure for "Percentage of contracts reviewed with acceptable quality" for all portfolios is designated as "partially complete." FAS officials stated that the reason this measure is partially complete is due to the difficulty in quantifying the data, and that applying this measure as a baseline is unreasonable due to the OCAO reviews not encompassing the volume of the program. Per officials with the Office of Strategic Business Planning and Process Improvement, it is possible that this measure will be removed from the scorecards in FY 2009.

It is our understanding that FAS intended for this measure to be based on the results of the OCAO's PMRs, which are conducted on an annual basis for all of GSA's procurement programs. For each GSA region, the OCAO selects a sample of contracting actions for each service to review for acceptable quality, covering a broad range of compliance factors, including acquisition planning, contractor responsibility determination, compliance with a variety of regulatory and legal requirements, negotiation and award documentation, contract administration, and exercise of contract options.

However, due to limited staffing, the OCAO reviews are based on a small sample of contract actions. In FY 2007, the OCAO reviewed an average of 10 Schedule contract files per acquisition center.⁵ In addition, OCAO representatives advised us that PMR reviews are intended to identify systemic trends rather than a definitive assessment of overall compliance. Considering the significant risk due to the size of the Schedules program, it is critical for FAS to establish a sufficient and reliable basis for measuring overall compliance.

Recommendation

We recommend that the Commissioner of the Federal Acquisition Service:

3. Establish an internal review program through the Office of Acquisition Management that will provide an adequate assessment of the extent that MAS contracts meet requirements for quality in terms of compliance with laws, regulations, and guidelines and that can be quantitatively measured at the organizational level.

Management Comments

In his August 21, 2009 response to the draft report, the Commissioner indicated partial agreement with this recommendation.

Recommendation 3. The Commissioner's response stated that FAS agrees that an internal review program is vital to the quality assessment of contract compliance at the organizational level. In addition, FAS states that the Office of Acquisition Management cooperates with the OCAO's office by supplying personnel to participate in reviews and assists, as requested, in the development of the PMR review checklists. However, FAS believes that it is imprudent to develop two review programs that they believe focus on the same task.

We reaffirm our recommendation that the Commissioner of FAS should establish an internal review program through the Office of Acquisition Management that will provide an adequate assessment of the extent that MAS contracts meet requirements for quality in terms of compliance with laws, regulations, and guidelines and that can be quantitatively measure at the organizational level. The OCAO's PMR process is not intended to serve as an internal review function for the entire MAS program. PMR reviews cover all of GSA's acquisition programs, and MAS programs have very limited exposure. In FY 2007, the OCAO reviewed a total of 155 contracts. Of those contracts, the OCAO reviewed an average of 10 MAS contracts across five regions⁵. As of September 1, 2008, GSA had over 16,000 MAS contracts in effect.

⁵ In FY 2007, the OCAO PMRs included MAS Acquisition Centers in Regions 2, 3, 6, 7, and 10 resulting in an average of 10.2 Schedule contracts reviewed per acquisition center.

CONCLUSION

FAS has performance metrics for MAS COs that measure contract quality. While FAS has sufficient measures for customer satisfaction, the measures for pricing need to be strengthened. Because pricing is paramount to the Schedules program, attention is needed to ensure that it receives adequate emphasis in CO performance. In addition, FAS needs to take action to ensure a greater emphasis on overall compliance with laws, regulations, and guidelines.

FAS should adopt additional measures at the organizational level to address continuing concerns about Schedules program pricing to ensure that the program meets its fundamental intent to leverage the collective purchasing volume of the government. Strengthening price related performance measures is critical to improve controls over the quality of MAS contracts and ensure that the MAS program fulfills its key value proposition to offer volume discount pricing. The targeted review process advocated in this report would also emphasize to acquisition professionals the importance of performing a quality price analysis and achieving the best prices attainable. Further, in order to maintain the Schedules program's unique exemption from full and open competition established by law, FAS must be vigilant in ensuring that orders and contracts under the MAS program result in the lowest overall cost alternative to the government. In implementing the recommendations associated with pricing in this report, FAS could also satisfy the recommendation associated with performance measures from the MAS Workload Management report, referred to on Page 12 of this report.

Relative to compliance with laws, regulations, and guidelines, FAS has developed portfolio scorecards that incorporate a measure for overall quality of contract actions; however, FAS has not formally implemented the measure. In order to provide an adequate assessment of the extent to which MAS contracts meet the requirements for quality, FAS should establish an internal review program that can be quantitatively measured at the organizational level.

INTERNAL CONTROLS

We performed a limited internal control review related to the FAS FY 2008 scorecards and the sample of APPAS plans we reviewed. The Results of Review and Recommendations sections of this report outline improvements needed in the performance measurement process related to contract quality.

APPENDICES

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

APPENDIX A

Pricing Criteria and History of Reported Problems

GAO Reports:

- ◆ “Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contracts,” GAO Report Number GAO-05-229, issued February 11, 2005: The GAO analysis of GSA's review of selected FY 2004 Schedules' contract files found that nearly 60 percent lacked the documentation needed to clearly establish that the prices were effectively negotiated. Specifically, the contract documentation did not establish that negotiated prices were based on accurate, complete, and current vendor information; adequate price analyses; and reasonable price negotiations. The report cited that GSA's efforts to ensure most favored customer pricing have been hindered by the significant decline in the use of pre-award and post-award audits of pre-award pricing information, two independent pricing tools that have helped GSA avoid or recover hundreds of millions of dollars in excessive pricing.

- ◆ “Multiple Award Schedules Contracting: Changes Needed in Negotiation Objectives and Data Requirements,” GAO Report Number GGD-93-123, issued on August 25, 1993: GAO found that GSA's policy related to its pricing objective was unclear. Most favored customer should be GSA's negotiation objective and Schedule prices frequently were not the vendor's best prices.

GSA Federal Supply Service Report:

- ◆ “Acquisition Quality and Improvement Program – Contract Quality Review Summary,” issued April 15, 2005: The Acquisition Quality Measurement and Improvement Program was designed to measure compliance with all negotiation requirements with an emphasis on pricing. The major finding of the review was that better documentation is needed to support negotiation of most favored customer pricing for MAS contracts.

GSA Office of Inspector General Reports:

- ◆ From 2000 – 2007, the GSA OIG has identified the Schedules program as a Major Management Challenge in its Annual Performance and Accountability Report. The concern is that, as the Schedules program has grown, the importance of certain program fundamentals, such as price analysis and negotiations have diminished.

- ◆ “Review of Multiple Award Schedule Program: Workload Management,” Report Number A060190/Q/6/P07004, issued July 31, 2007: GSA OIG attestation reviews of schedule vendor pricing information continue to identify problems. Over 75 percent of pre-award MAS attestation reviews issued by the GSA OIG from FY 2005 through the first quarter of FY 2007 indicated that the CSP data that the vendors submitted was not current, accurate, or complete. For the same time period, the GSA OIG recommended over \$2.3 billion in savings as a result of these reviews. The report recommended that FAS establish performance measures that evaluate CO verification of vendor disclosures related to commercial sales practices, CO effectiveness in analyzing prices and conducting negotiations, and consideration of field pricing assistance.
- ◆ GSA OIG Special Report: “MAS Pricing Practices: Is FSS Observing Regulatory Provisions Regarding Pricing?” issued August 24, 2001: The OIG found that for 44 out of 80 schedule contracts reviewed, COs extended contracts without a meaningful or vigorous price analysis.

Federal Acquisition Regulation (FAR):

- ◆ FAR 8.404 – Federal Supply Schedules: Subpart states, “GSA has determined the prices of supplies and services under schedule to be fair and reasonable.”
- ◆ FAR 15.406 (3a) – Contract Pricing: Subpart states, “The contracting officer shall document in the contract file... a summary of the contractor’s proposal, any field pricing assistance recommendations, including the reasons for any pertinent variances from them, the Government’s negotiation objective, and the negotiated position.”

Federal Supply Service Procurement Information Bulletins (PIBs):

- ◆ PIB 04-8, “Achieving Fair and Reasonable Prices in MAS Negotiations, 3,” issued August 20, 2004: This PIB includes guidance for exercising contract options and states that industry and vendor information change over time. Therefore, pricing consistency should not be expected.
- ◆ PIB 00-10, “Fair and Reasonable Prices and the MAS Pricing Policy,” issued April 18, 2000: This PIB outlines that a basic part of FSS’ responsibility to its customers is to determine prices to be fair and reasonable.
- ◆ PIB 99-7, “3 Friendly Reminders,” issued March 5, 1999: This PIB includes a reminder to the procurement staff that prices and terms for contract modifications (including exercising contract options) are just as important as those at the time of award. In addition, the PIB states that the vendor’s CSP usually changes; therefore, if the vendor asserts that the CSP remains constant from the time of award, it should be questioned.

- ◆ PIB 97-14, "The Final Rule Arrives," issued September 3, 1997: This PIB states that GSA and the COs have a responsibility to the taxpayers and to customer agencies to take full advantage of the Government's leverage in the market in order to obtain the best deal for the taxpayer.

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

APPENDIX B

Management Comments



Official File

GSA Federal Acquisition Service

AUG 21 2009

MEMORANDUM FOR KENNETH CROMPTON
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR ACQUISITION AUDITS (JA-A)

FROM:

James A. Williams
JAMES A. WILLIAMS
COMMISSIONER
FEDERAL ACQUISITION SERVICE (Q)

SUBJECT:

GSA Draft Report, "Review of Program Performance
Measurement for Procurement" (A070171)

The Federal Acquisition Service (FAS) has reviewed the subject report and partially concurs with the report findings and recommendations. Specific comments on the report findings and recommendations, as well as actions taken and planned, are provided in the attached statement.

Please call me at (703) 605-5400 if you have any questions. Your staff may contact Ms. Cathy Fick at (703) 605-5452 or Catherine.fick@gsa.gov for additional information.

Attachment

cc: Theodore Stehney (JA)

U.S. General Services Administration
2200 Crystal Drive
Arlington, VA 20406-0003
www.gsa.gov

**Federal Acquisition Service (FAS) Comments on the
OIG Draft Report: "Review of Program Performance Measurement for
Procurement" (A070171)**

General Comments:

The purpose and resultant recommendations of this audit expand considerably from its inception in May 2007, at which point its objectives were:

1. "What performance measures FAS has that relate to the performance of MAS procurement personnel;
2. If stated performance objectives are consistent with how procurement personnel actually evaluated;
3. If there is a conflict with the expressed and implied performance measures and the organization's mission; and
4. If these performance measures are consistent with the agency's performance measures."¹

This audit, as well as another audit, "Review of Multiple Award Schedule Program Contract Workload Management" (A060190), dated July 31, 2007, focus primarily on price negotiations and program-wide controls rather than the originally stated scope and intent of the audits. While FAS acknowledges that input on pricing can be valuable, we asked for and would greatly benefit from a review of the scoped purpose of the audit.

FAS takes strong exception to the report's characterization of the negotiation objective for Schedule contracts as Most Favored Customer and that the negotiation outcome must leverage the aggregate purchasing demand of the Government. See page 1, paragraph 1, "To ensure customer agencies and taxpayers receive the best value and fulfill the intent of the Schedules program, Contracting Officers (COs) are responsible for negotiating with the goal of achieving vendors' Most Favored Customer pricing through leveraging the collective purchase volume of the Government." The report again makes this assertion on page 6, paragraph 3, using both the Competition in Contracting Act (CICA) of 1984 and FAS Procurement Information Bulletin 04-2, quoting, "Our goal is to use commercial terms and conditions and the leverage of the Government's volume buying to achieve the best possible prices and terms for both customers and taxpayers."

¹ Memorandum for James A. Williams, Commissioner, FAS, from Kenneth L. Crompton, dated May 25, 2007, Subject: Review of Program Performance Measurement for Procurement

The negotiation strategies for MAS contracts are set forth in GSAM 538.270 which states, "The Government will seek to obtain the offeror's best price (the best price given to the most favored customer.) However, the Government recognizes that the terms and conditions of commercial sales vary and there may be legitimate reasons why the best price is not achieved." The clause directs the CO to compare the terms and conditions of sale as well as other key factors that may influence a determination of fair and reasonable pricing. The above referenced Procurement Information Bulletin provides the same guidance to the COs but the report fails to quote or reference that guidance.

Given that a MAS contract is not a requirements contract, the CO makes a determination of fair and reasonable pricing based on commercial practices, market research and the terms and conditions of the contract. The ordering activities are best able to leverage the Government's buying power with a determination of best value for a specific scope and need. They can further leverage aggregate volume demand and further competition by establishing multiple Blanket Purchasing Agreements. GSA provides other solutions that can leverage the Government's aggregate buying power such as Strategic Sourcing, Smartbuy, and the Global Supply program.

While FAS recognizes the importance of pricing in all its programs, we also recognize the importance of competition and pricing at each level of the programs we administer. Further negotiation, competition, pressures, and leverage exercised at the most appropriate time in the acquisition cycle will yield the best price for the Government. We believe we continue to refine our processes to effectively deliver products and services at competitive pricing taking into account the entire acquisition cycle. Currently there are several initiatives that may impact our approach to pricing including changes to GSAR/GSAM 538, recommendations from the Blue Ribbon Panel, proposed training, and systems changes. All considered these will bring substantial changes to the program and how it approaches pricing. Given these initiatives, some of the proposed recommendations appear to be ill-timed or perhaps failed to fully consider these factors.

FAS continuously works to improve its Performance Measurement Program and the Office of Acquisition Management (QV) is currently collaborating with the Office of Strategic Business Planning and Process Improvement (QP) to ensure performance measures align with acquisition program goals. For FY 2010, QP is working to reduce the quantity and enhance the strategic focus of scorecard measures across FAS. Additionally, it is obtaining an outside review of the Performance Measures Program to determine if program changes should be made beginning with the FY 2011 cycle to ensure scorecards remain relevant to FAS strategies and foster portfolio and employee participation towards common goals.

Particular to the MAS Program, QV and QP are partnering to develop a strategic plan that will include long-term goals, objectives and metrics to gauge performance and quality of the program. The review will consider existing MAS measures and recommendations from various sources including this audit and the MAS Advisory Panel in order to identify potential new measures. Future measures will balance process, compliance and financials as they roll up to the MAS and FAS strategic goals. The project is being coordinated through the MAS Program Office and the MAS Governance Council.

As part of the strategic plan for long term performance goals, we share the OIG's goal of developing the best possible metrics for the Program. However, we believe it is necessary to benchmark performance measures prior to establishing firm metrics. The audit report references five organizations from which the OIG solicited performance measurement input. The measures in Table 5 represent responses from three of the five organizations and address the quality of documentation and contract files. As the report notes on page ten, "In general, evaluations of CO compliance with laws, regulations, and policies are based on supervisory file reviews. The extent of these reviews varies among the acquisition centers. We believe that the existing measures on the CO APPAS plans are adequate to assess general compliance." While the report states that FAS should seek additional measures around pricing, Table 6 shows responses from only two organizations and the measures are not relevant to the award of MAS contracts. Overall, we are looking to understand how the public and private sectors, which create large contract vehicles for others to use, evaluate the success of their programs. We were hoping to learn of the metrics from the programs such as VA Schedules, Texas Multiple Award, California Multiple Award, NASA Solutions for Enterprise-Wide Procurement (SEWP) Government-Wide Acquisition Contract, as well as input from some of the published academic studies. FAS will look at like public contracts vehicles and review benchmark studies on both private and public acquisition. It would be beneficial if the OIG would participate in the process through the working group.

Comments on Specific Recommendations

Recommendation No. 1:

Ensure that the Offices of General Supplies & Services and Travel, Motor Vehicles, and Card Services develop at least one organizational measure emphasizing the importance of pricing to the Schedules program for FY 2010 and future scorecards.

Comment:

Partially agree. FAS agrees that pricing is a key responsibility of the program. Measures should be developed after a comprehensive benchmarking study is completed and the results are thoroughly analyzed for applicability to FAS programs. Additionally, proposed measures need to be evaluated in conjunction with the overall strategic goals for FAS, and then in conjunction with the overall strategic goals for FAS, the recommendations of the Blue Ribbon Panel and implementation thereof, as well as the revised GSAR/GSAM. We believe that the proposed recommendation is ill-timed due to changes anticipated to the program.

For its part, the Travel, Motor Vehicle and Card Services (TMVCS) has already put in place a proposed (tracking) performance measure for FY 2009, "Percent of Time At or Below Market Basket Pricing." An acquisition is currently underway to hire a third party to determine appropriate industry benchmarks and what corporate America pays for similar automotive products and services. This market basket study will serve as a baseline for acquisition personnel and assist them in price analysis and negotiations.

Recommendation No. 2:

Ensure that the Offices of Integrated Technology Services; General Supplies & Services; and Travel, Motor Vehicles, and Card Services develop an organizational measure for FY 2010 and future scorecards to measure price analysis for a risk-based sample of proposed awards or modifications (e.g. percent of contracting actions reviewed with acceptable price analysis performed and adequately documented in compliance with regulatory guidelines.)

Comment:

Partially Agree. The MAS Program Office is developing a set of training courses geared to the acquisition workforce to educate the existing and incoming workforce on contracting requirements, including negotiations and documentation. The development and implementation of these courses will be part of the Acquisition Management performance measures. FAS agrees that pricing is a key responsibility of the program. As mentioned above, FAS believes that measures should be developed after a comprehensive benchmarking study is completed and the results are thoroughly analyzed for applicability to FAS programs. Program measures need to be evaluated in conjunction with the overall strategic goals for FAS, the recommendations of the Blue Ribbon Panel and implementation thereof, as well as the revised GSAR/GSAM. We believe that the proposed recommendation is ill-timed due to changes anticipated to the program.

For its part, TMVCS will begin monthly internal program reviews in FY 2010. Supervisory staff will select high-risk contracts and conduct a detailed file review

to ascertain where knowledge and/or skill gaps exist in the workforce. The data will be tracked for FY 2010 to establish a baseline for a potential measure in FY 2011.

Recommendation No. 3:

Establish an internal review program through the Office of Acquisition Management that will provide an adequate assessment of the extent that MAS contracts meet requirements for quality in terms of compliance with laws, regulations, and guidelines and that can be quantitatively measure at the organizational level.

Comment:

Partially agree. FAS agrees that an internal review program is vital to the quality assessment of contract compliance at the organizational level. By GSA Order, the Procurement Management Review Division and all of its responsibilities was assigned to the GSA Office of the Chief Acquisition Officer (OCAO) in December 2004.² In fact this year that effort was enhanced as they also took on responsibility for the A-123 review which this year included review of acquisition processes and management controls. We believe it is imprudent to develop two review programs essentially focused on the same task. Additionally, it would create an undue administrative burden on the acquisition workforce to respond to multiple oversight reviews focusing on the same issues. The Office of Acquisition Management currently cooperates with the OCAO by supplying personnel to participate in reviews and assisting, as requested, in the development of review checklists. Further, the Office of Acquisition Management participates in the A-123 review process as well. Finally, Acquisition Management is coordinating a trend analysis of the Procurement Management Review reports and A-123 reviews with OCAO in order to assess gaps and then address training opportunities.

² OHR P 5440.1 CHGE 510, December 16, 2004, Chapter 4, Part 5

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

APPENDIX C

OIG Response to Management's Comments

In his August 21, 2009 response, the Commissioner of the Federal Acquisition Service (FAS) provided comments to the draft report under the headings, "General Comments" and "Comments on Specific Recommendations." This appendix addresses the Commissioner's general comments. Our comments on the Commissioner's response to specific recommendations are in the body of the report following each recommendation.

Audit Scope and Objectives

The Commissioner's general comments stated that the purpose and recommendations of our review expanded considerably from its inception and focused primarily on price negotiations and program-wide controls rather than the originally stated scope and objective.

This review was included as part of the General Services Administration (GSA) Office of Inspector General's (OIG) FY 2007 Annual Audit Plan. The plan stated a focus for this review which included four areas as identified in the Commissioner's comments. However, as stated in the entrance conference held on May 31, 2007, the audit team planned to establish the audit objectives and scope upon completion of the survey phase¹ of the review.

On August 1, 2007, the audit team informed the designated FAS point of contact for the review that we had considered the four focus areas included in the Annual Audit Plan and determined that we could not go forward with these objectives because FAS had not yet finalized the scorecards related to the Schedules program for FY 2007. At that time, we also informed our contact point of our revised audit objectives as stated in this report. Shortly after this communication, FAS changed our point of contact. On August 20, 2007, the audit team communicated to the new contact point the same revised objectives and our planned methodology. Further, during a status meeting with FAS on January 30, 2008, we again informed FAS of our revised objectives.

Negotiations and Pricing

The Commissioner's comments indicate that FAS takes strong exception to the characterization that the negotiation objective for Schedule contracts is Most Favored Customer (MFC) and that the negotiation outcome must leverage the purchasing

¹ The audit survey phase is a fact-finding process to gather operational, performance, financial, and other program activity information without detailed data verification of supporting information.

volume of the Government. The comments cite a caveat set forth in the General Services Acquisition Manual (GSAM) which recognizes that there may be legitimate reasons why the best price is not achieved. While we agree that contracting officials should consider all terms and conditions involved and that there may be instances in which the best price may not be achieved, this does not negate the fact that the goal of achieving MFC pricing and leveraging the purchasing power of the government are fundamental pillars of the Schedules program. GSA's Schedules webpage states that, "GSA Schedule contracts are negotiated with the intent of achieving the contractors' 'most favored customer' pricing/discounts under similar conditions." Additionally, the former Federal Supply Service's Procurement Information Bulletin (PIB) 97-14 outlines that GSA is to, "...continue to seek to obtain the offeror's best price (most favored customer) based on its evaluation of discounts, terms, conditions, and concessions offered to commercial customers for similar purchases. The pursuit of most favored customer pricing as a goal is consistent with commercial practice and totally consistent with the objective of negotiating a fair and reasonable price." This PIB continues on to state that, "GSA and its COs have a fiduciary responsibility to the American taxpayers and the customer agencies to take full advantage of the government's leverage in the market in order to obtain the best deal for the taxpayer." Therefore, we reaffirm our statements in the report.

The Commissioner's comments also state that while FAS recognizes the importance of pricing in all its programs, FAS also recognizes (1) the importance of competition and pricing at each level of the programs FAS administers, and (2) that further negotiation, competition, pressures, and leverage exercised at the most appropriate time in the acquisition cycle will yield the best price for the Government. These comments highlight a fundamental disagreement the OIG has with FAS regarding the intent and value of the Schedules program. As noted in this and previous audit reports, a key value proposition for the Schedules program is the ability of customer agencies to order goods and services with the assurance that GSA has determined the prices to be fair and reasonable. This also represents the primary value that GSA adds to the acquisition process under the Schedules program and is consistent with the intent of the program to offer commercial goods and services where vendor pricing is based on a competitive marketplace. Further, this is the rationale for the required vendor Commercial Sales Practices disclosure and the GSA Contracting Officer's evaluation of that disclosure.

Benchmarking of Performance Measures

The Commissioner's comments indicated dissatisfaction with the benchmarking work we performed as incomplete and not relevant to the Schedules program. In addition, the comments state that FAS was looking to understand how the public and private sectors, which create large contract vehicles for others to use, evaluate the success of their programs and specifically the desire to obtain metrics from several public programs including Texas Multiple Award, California Multiple Award, Veterans Affairs Schedules, and NASA Solutions for Enterprise-Wide Procurement (SEWP).

As stated in the “Objective, Scope, and Methodology” section of the report, we met with procurement officials from five government organizations, three of which are referred to in the Commissioner’s comments. Tables 5 and 6 in the report represent those organizations’ measures regarding compliance with laws, regulations, and guidelines. Table 5 includes the compliance performance measures *for individual acquisition professionals* and Table 6 includes the compliance measures *at the organizational level*.

In the survey phase of our review, we contacted a representative from the fourth program mentioned in the Commissioner’s comments. At that time, the procurement office was undergoing reorganization and did not have performance measures in place. In addition, when we met with procurement officials in these organizations, we provided assurance that we would not identify them specifically or associate the organization by name with their respective measures in our report, which is standard practice for our reviews. To date, we have not received requests from FAS officials for copies of any specific measures or metrics.

The Commissioner’s response states that the measures shown in Table 6 of this report are not relevant to the award of MAS contracts. Most of the organizations we studied award contracts for others to use. In addition, the first measure mentioned in Table 6 is similar to a measure included on the FAS’ FY 2007 and FY 2008 scorecards for the IT Schedule for product price competitiveness. In addition, there is a measure included in this table which measures the percent of solicitations or contract files approved upon initial policy/legal review. According to a GSA memorandum issued on October 1, 2003, by the Federal Technology Service Commissioner, legal review/approval/concurrence is required prior to executing various contracts or contracting actions over certain thresholds, including Schedules, or task orders or BPAs awarded against Schedules. Therefore, we affirm that the measures included in Table 6 are pertinent to MAS contracts.

REVIEW OF PROGRAM
PERFORMANCE MEASUREMENT FOR PROCUREMENT
REPORT NUMBER A070171/Q/A/P09005

APPENDIX D

Report Distribution

	<u>Copies</u>
Commissioner, Federal Acquisition Service (Q)	3
Internal Control and Audit Division (BEI)	1
Assistant Inspector General for Auditing (JA & JAO)	2
Assistant Inspector General for Investigations (JI)	1
Deputy Assistant Inspector General for Acquisition Audits (JA-A)	1